

Financial statements of:

FEED MY STARVING CHILDREN, INC.

Years ended
February 28, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Feed My Starving Children, Inc.
Coon Rapids, MN

Report on the Financial Statements

We have audited the accompanying financial statements of Feed My Starving Children, Inc. (the Organization) which comprise the statements of financial position as of February 28, 2018 and 2017, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Feed My Starving Children, Inc. as of February 28, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Schechter Dokken Kanter
Andrews + Selzer Ltd.*

May 21, 2018

FEED MY STARVING CHILDREN, INC.

STATEMENTS OF FINANCIAL POSITION

FEBRUARY 28

	<u>2018</u>	<u>2017</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 6,344,494	\$ 7,194,002
Accounts and MobilePack receivables, net (Note 3)	272,293	531,677
Contributions receivable, current portion, net (Note 4)	347,950	509,300
Other receivables	7,153	2,414
Inventory (Note 5)	4,969,931	2,865,428
Prepaid expenses	374,009	377,374
Certificates of deposit	4,481,000	1,953,000
	<u>16,796,830</u>	<u>13,433,195</u>
Property and equipment, net (Note 6)	4,213,771	4,102,585
Other assets:		
Contributions receivable, net of current portion (Note 4)	175,201	381,846
Security deposits	87,105	74,909
	<u>\$ 21,272,907</u>	<u>\$ 17,992,535</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$ 1,438,513	\$ 1,751,785
Accrued salaries and vacation	972,580	843,054
Deferred:		
Rent, current portion	20,614	18,802
Revenue	2,723,610	2,355,971
Promissory note, current portion (Note 7)	60,633	53,781
	<u>5,215,950</u>	<u>5,023,393</u>
Long-term liabilities:		
Deferred rent, net of current portion	410,049	421,242
Promissory note, net of current portion (Note 7)	816,648	1,003,098
	<u>6,442,647</u>	<u>6,447,733</u>
Net assets:		
Unrestricted:		
Undesignated	12,172,353	9,986,439
Board designated (Note 2)	500,000	-
	<u>12,672,353</u>	<u>9,986,439</u>
Temporarily restricted (Note 8)	2,157,907	1,558,363
	<u>14,830,260</u>	<u>11,544,802</u>
	<u>\$ 21,272,907</u>	<u>\$ 17,992,535</u>

FEED MY STARVING CHILDREN, INC.

	2018		
	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Contributions	\$ 22,603,400	\$ 2,493,641	\$ 25,097,041
MobilePack contributions	14,208,054	-	14,208,054
In-kind contributions (Note 1)	26,409,297	-	26,409,297
MarketPlace sales	2,304,404	-	2,304,404
Other revenue	60,795	-	60,795
Special events, net of cost of direct benefits to donors of \$153,627 and \$174,871 in 2018 and 2017, respectively	1,613,333	-	1,613,333
Net assets released from restrictions (Note 8)	1,894,097	(1,894,097)	-
Total revenues and other support	69,093,380	599,544	69,692,924
Expenses:			
Program services	60,278,812	-	60,278,812
Management and general	2,757,340	-	2,757,340
Fundraising	3,371,314	-	3,371,314
Total expenses	66,407,466	-	66,407,466
Changes in net assets	2,685,914	599,544	3,285,458
Net assets, beginning	9,986,439	1,558,363	11,544,802
Net assets, ending	\$ 12,672,353	\$ 2,157,907	\$ 14,830,260

See notes to financial statements.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED FEBRUARY 28

2017		
Unrestricted	Temporarily Restricted	Total
\$ 19,696,289	\$ 2,938,007	\$ 22,634,296
13,331,739	-	13,331,739
22,746,958	-	22,746,958
2,266,902	-	2,266,902
10,076	-	10,076
1,582,367	-	1,582,367
2,227,108	(2,227,108)	-
<u>61,861,439</u>	<u>710,899</u>	<u>62,572,338</u>
54,579,806	-	54,579,806
2,346,909	-	2,346,909
<u>2,923,597</u>	<u>-</u>	<u>2,923,597</u>
<u>59,850,312</u>	<u>-</u>	<u>59,850,312</u>
2,011,127	710,899	2,722,026
<u>7,975,312</u>	<u>847,464</u>	<u>8,822,776</u>
<u>\$ 9,986,439</u>	<u>\$ 1,558,363</u>	<u>\$ 11,544,802</u>

FEED MY STARVING CHILDREN, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED FEBRUARY 28

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Changes in net assets	\$ 3,285,458	\$ 2,722,026
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	636,306	515,975
Loss on disposal of property and equipment	-	3,323
Change in donated labor in inventory	897,434	(362,867)
Increase (decrease) in allowance for doubtful accounts	17,476	(881,851)
Donated marketable securities	(614,445)	(411,592)
(Gain) loss on sales of donated marketable securities	(1,651)	498
Proceeds from sale of donated marketable securities	616,096	411,094
Decrease (increase) in assets:		
Accounts, MobilePack and other receivables	237,169	1,020,882
Contributions receivable	367,995	(187,704)
Inventory	(3,001,937)	1,340,854
Prepaid expenses	3,365	(38,023)
Other assets, security deposits	(12,196)	(500)
(Decrease) increase in liabilities:		
Accounts payable	(381,304)	(117,480)
Accrued salaries and vacation	129,526	85,026
Deferred:		
Rent	(9,381)	13,682
Revenue	367,639	540,896
Net cash provided by operating activities	<u>2,537,550</u>	<u>4,654,239</u>
Cash flows from investing activities:		
Purchase of:		
Certificates of deposit	(6,608,000)	(3,198,000)
Property and equipment	(679,460)	(964,119)
Proceeds from redemption of certificates of deposit	4,080,000	3,190,000
Net cash used in investing activities	<u>(3,207,460)</u>	<u>(972,119)</u>
Cash flows from financing activities, payments on promissory note	<u>(179,598)</u>	<u>(239,475)</u>
Net (decrease) increase in cash and cash equivalents	(849,508)	3,442,645
Cash and cash equivalents, beginning of year	<u>7,194,002</u>	<u>3,751,357</u>
Cash and cash equivalents, end of year	<u>\$ 6,344,494</u>	<u>\$ 7,194,002</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 38,232</u>	<u>\$ 46,908</u>
Projects in process in accounts payable	<u>\$ 68,032</u>	<u>\$ 71,264</u>

FEED MY STARVING CHILDREN, INC.

	2018					
	Program services	Support Services			Total support services	Total expenses
		Management and general	Fundraising			
Salaries	\$ 5,608,327	\$ 1,897,395	\$ 1,358,131	\$ 3,255,526	\$ 8,863,853	
Payroll taxes	434,188	138,187	98,515	236,702	670,890	
Employee benefits	677,088	172,686	183,157	355,843	1,032,931	
Cost of food:						
Raw materials	22,055,407	-	-	-	22,055,407	
Donated production labor	25,140,548	-	-	-	25,140,548	
Cost of sales, Market Place	1,184,569	-	-	-	1,184,569	
Advertising and marketing	298,456	8,785	117,135	125,920	424,376	
Computer and software	90,918	26,955	71,694	98,649	189,567	
Charitable donations - shipping	661,650	-	-	-	661,650	
Occupancy	1,115,901	20,786	15,207	35,993	1,151,894	
Professional fees	240,295	201,830	23,670	225,500	465,795	
Employee recruiting	1,396	460	337	797	2,193	
Printing and copying	92,625	31,316	240,393	271,709	364,334	
Insurance	144,347	47,611	34,832	82,443	226,790	
Utilities	241,009	5,195	3,800	8,995	250,004	
Travel and meals	1,392,119	42,838	75,038	117,876	1,509,995	
Equipment rental and maintenance	216,151	4,931	4,623	9,554	225,705	
Telephone	70,910	6,049	7,258	13,307	84,217	
Postage and shipping	55,894	11,481	130,819	142,300	198,194	
Training and staff development	22,539	3,996	22,629	26,625	49,164	
Supplies	195,075	4,532	9,853	14,385	209,460	
Donor appreciation	-	-	281,976	281,976	281,976	
Bank and credit card processing	89,388	15,623	371,097	386,720	476,108	
Special events	-	153,627	257,048	410,675	410,675	
Bad debt (recovery) expense	(314,550)	-	-	-	(314,550)	
Interest expense	-	37,026	-	37,026	37,026	
Depreciation	513,702	64,662	50,007	114,669	628,371	
Miscellaneous	50,860	14,996	14,095	29,091	79,951	
Total functional expenses	60,278,812	2,910,967	3,371,314	6,282,281	66,561,093	
Less cost of direct benefits to donors	-	(153,627)	-	(153,627)	(153,627)	
Total expenses - statement of activities	\$ 60,278,812	\$ 2,757,340	\$ 3,371,314	\$ 6,128,654	\$ 66,407,466	
Percentages of total	<u>91%</u>	<u>4%</u>	<u>5%</u>	<u>9%</u>	<u>100%</u>	

See notes to financial statements.

STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED FEBRUARY 28

2017				
Program services	Support Services		Total support services	Total expenses
	Management and general	Fundraising		
\$ 5,020,422	\$ 1,631,438	\$ 1,280,462	\$ 2,911,900	\$ 7,932,322
377,923	117,286	91,484	208,770	586,693
526,749	137,838	161,865	299,703	826,452
19,757,762	-	-	-	19,757,762
22,868,315	-	-	-	22,868,315
1,163,181	-	-	-	1,163,181
169,693	9,320	108,375	117,695	287,388
106,441	22,002	93,324	115,326	221,767
283,521	-	-	-	283,521
1,149,611	14,299	10,929	25,228	1,174,839
310,424	131,051	49,717	180,768	491,192
2,050	693	529	1,222	3,272
142,613	35,495	106,716	142,211	284,824
150,012	50,692	38,746	89,438	239,450
201,520	3,981	3,043	7,024	208,544
1,081,291	41,647	77,384	119,031	1,200,322
161,260	4,655	4,002	8,657	169,917
81,401	5,707	11,018	16,725	98,126
113,731	18,003	55,654	73,657	187,388
17,251	2,432	9,967	12,399	29,650
177,270	3,943	7,016	10,959	188,229
-	-	233,686	233,686	233,686
90,333	18,744	296,053	314,797	405,130
-	174,871	244,238	419,109	419,109
123,501	-	-	-	123,501
-	46,089	-	46,089	46,089
449,829	34,921	28,811	63,732	513,561
53,702	16,673	10,578	27,251	80,953
54,579,806	2,521,780	2,923,597	5,445,377	60,025,183
-	(174,871)	-	(174,871)	(174,871)
<u>\$ 54,579,806</u>	<u>\$ 2,346,909</u>	<u>\$ 2,923,597</u>	<u>\$ 5,270,506</u>	<u>\$ 59,850,312</u>
<u>91%</u>	<u>4%</u>	<u>5%</u>	<u>9%</u>	<u>100%</u>

1. Nature of business and summary of significant accounting policies:

Nature of business:

Feed My Starving Children, Inc. (the Organization) was incorporated as a Minnesota nonprofit corporation in 1986. Its mission is to feed God's starving children hungry in body and spirit. With God's help, the Organization will reduce the number of starving children throughout the world by helping to instill compassion in people that hear and respond to the cries of those in need.

The Organization packages a unique food supply for distribution around the world at permanent sites in certain communities of Minnesota, Illinois and Arizona. The Organization leases warehouse space in Georgia and Pennsylvania. The Organization also has mobile packing events in numerous other states. During 2018 and 2017, approximately 1,222,000 and 1,098,000 volunteers produced 333.4 million and 284.4 million meals, respectively.

The Organization also supports economies where it distributes meals by purchasing handmade crafts and reselling them in its MarketPlace, available at all packing sites, online and at most MobilePack events.

Basis of presentation:

Net assets, revenues, expenses and gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Resources over which the Board of Directors has full discretionary control.

Temporarily restricted – Those resources subject to donor imposed restrictions, which will be satisfied by actions of the Organization or the passage of time.

Permanently restricted – Those resources subject to certain donor imposed restrictions that will be maintained permanently by the Organization. The Organization did not have any in fiscal year 2018 and 2017.

Concentration of credit risk:

Financial instruments, which potentially subject the Organization to concentration of credit risk, consist primarily of cash deposits. The Organization maintains cash accounts at financial institutions where at times the cash balances exceed the federally insured limit of \$250,000. The Organization has not experienced any loss associated with the practice.

Vendor concentrations:

The Organization has mitigated its supplier risk by qualifying a minimum of two vendors for each major food ingredient. However, the vitamins are single-sourced by a vendor with one production facility. The Organization is prepared to transfer production to a qualified backup supplier in the event the existing supply is disrupted.

1. Nature of business and summary of significant accounting policies (continued):**Donated marketable securities:**

The Organization's policy is to convert donated marketable securities into cash within days of receipt.

Income taxes:

The Organization is classified as a tax-exempt public charity under Section 501(c)(3) of the Internal Revenue Code and comparable sections of certain state tax statutes and, as such, is subject to income tax only on net unrelated business income. The Organization had no unrelated business income in 2018 and 2017.

Management evaluated the Organization's tax positions and concluded there were no uncertain tax positions (including unrelated business income) that require adjustment to the financial statements.

Sales taxes:

When applicable, the Organization collects sales taxes from its customers and remits the entire amount to the various governmental units. The Organization's accounting policy is to exclude the tax collected from revenue and the remittances from cost of revenue.

Certificates of deposit:

Non-negotiable certificates of deposit are time deposits held at various banks and are stated at amortized cost. Certificates of deposit with original maturities of less than 90 days are classified as cash and cash equivalents.

MobilePack receivables:

MobilePack receivables are the result of signed agreements that the Organization has with MobilePack hosts who agree to fund a MobilePack event. MobilePack hosts are invoiced 90 and 45 days prior to the event and 50 days post the event for the contracted meals to be packed. The Organization determines the allowance for doubtful accounts based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Receivables are written off when deemed uncollectible. Collections of receivables previously written off are recorded as bad debt recoveries.

Contributions receivable:

Contributions receivable represent unconditional promises to give from donors for which payment is reasonably assured. Contributions receivable that are expected to be collected within one year are recorded at their net realizable value. Contributions receivable that are expected to be collected in future years are recorded initially at fair market value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. We determine the allowance for doubtful accounts based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectible. As of February 28, 2018 and 2017, there is no allowance for doubtful accounts provided as the contributions receivable are all deemed collectible.

1. Nature of business and summary of significant accounting policies (continued):

Inventory:

Inventory consists of program-related food to be gifted and is stated at cost determined by the first-in first-out method. Since inventory is not sold, but rather is gifted, cost is used to value food. Additionally, packaged food inventory includes donated labor, which is estimated based on industry data of the average cost to hire personnel to pack the food.

Property and equipment and depreciation methods:

The Organization capitalizes property and equipment in excess of \$1,000 at original cost or estimated fair market value, if donated. Depreciation expense is computed using the straight-line method over the estimated useful lives as follows:

<u>Asset type</u>	<u>Years</u>
Computers/software	3
Equipment	5-7
Furniture	7
Building	25
Leasehold improvements	Lesser of estimated life or lease term

Deferred revenue:

Funds for MobilePack and Gala events are often paid to the Organization prior to the date of the event. Revenue is recognized in the accounting period when the related MobilePack or Gala event occurs. Until the event has occurred, revenue received for a future event is recorded as deferred revenue.

Contributions:

Contributions, which include unconditional promises to give, are recognized as support in the period in which payment is received or promised. All contributions are available for unrestricted use unless specifically restricted by the donor.

Contributions with donor-imposed restrictions, such as time or purpose, are recorded as temporarily restricted net assets. When a donor-imposed restriction is fulfilled, the temporarily restricted net assets are reclassified to unrestricted net assets. This reclassification is reported as net assets released from restrictions within the statement of activities.

1. Nature of business and summary of significant accounting policies (continued):

Bequests:

Direct gifts of assets are recorded at their estimated fair value as contributions revenue when the Organization has received an unconditional promise to give. The Organization considers a bequest unconditional when the probate court declares the testamentary instrument valid and the proceeds are measurable.

During the year ended February 28, 2018, the Organization was notified they are listed as a beneficiary of a bequest, which includes a certain percentage of an estate. Since the final accounting for the estate has not been received from the court, the Organization is not able to measure the gift and therefore has not recorded the contribution as of February 28, 2018.

In-kind contributions:

Donated goods and services are recorded at their estimated fair value. Donated services are recognized in the financial statements when they create or enhance the value of non-financial assets. Donated labor is estimated based on industry data of the average cost to hire personnel to pack the food.

During 2018 and 2017, the following donated goods and services were received:

	<u>2018</u>	<u>2017</u>
Donated labor (\$11.38 and \$10.88 per volunteer hour, respectively, 2018 and 2017)	\$ 26,167,435	\$ 22,486,150
Raw materials	-	5,930
Equipment	28,372	7,041
Rent	-	1,356
Advertising, supplies and other professional fees	<u>213,490</u>	<u>246,481</u>
	<u>\$ 26,409,297</u>	<u>\$ 22,746,958</u>

Functional allocation of expenses:

The costs associated with program and supporting services have been presented on a functional basis. Accordingly, certain costs for joint activities have been allocated between program and administrative services based on management's estimate of payroll and occupancy costs utilized by each activity.

Freight costs:

All inbound shipping and handling costs are paid by the Organization and included in cost of food and cost of sales. The Organization also pays outbound shipping and handling costs of MobilePack events, which is also included in the cost of food and cost of sales.

Advertising:

Advertising costs of \$424,376 and \$287,388 were expensed as incurred during 2018 and 2017, respectively.

1. Nature of business and summary of significant accounting policies (continued):

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Donated labor is considered a significant estimate.

Reclassifications:

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation.

Subsequent events:

Management has evaluated for subsequent events through May 21, 2018, the date the financial statements were available for issuance.

2. Liquidity and Availability:

Feed My Starving Children's financial assets available, within one year of the statement of financial position date, for general expenditure are as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 6,344,494	\$ 7,194,002
Accounts and MobilePack receivables	272,293	531,677
Contributions receivable, current portion	347,950	509,300
Other receivables	7,153	2,414
Certificates of deposit	<u>4,481,000</u>	<u>1,953,000</u>
	11,452,890	10,190,393
Less donor-imposed restrictions	<u>(2,157,907)</u>	<u>(1,558,363)</u>
	9,294,983	8,632,030
Less board of directors designations	<u>(500,000)</u>	-
Financial assets available for general expenditure within one year	<u>\$ 8,794,983</u>	<u>\$ 8,632,030</u>

Donor-imposed restrictions primarily relate to permanent site development and country specific meal donations (See Note 8). Expenditures related to permanent site development are expected over the next one to three years. Expenditures for country specific meal donations are expected over the next one to two years.

Board of Directors designations are for permanent site development and expenditures related to this designation are expected over the next one to three years.

2. Liquidity and Availability (continued):

To balance the need for feeding more children with the ability to meet the Organization's short term expenditures, the Organization has a policy that establishes a range of cash and investments held between 37.5 to 75 days cash on hand. This is calculated using the next fiscal year's budgeted operating expenses less gift-in-kind expenditures. The policy is monitored through a monthly cash flow forecast and calls for action by management, and reporting to the Board of Directors, when the number of days of cash on hand falls outside of the range noted above.

3. Accounts and MobilePack receivables:

Accounts and MobilePack receivables as of 2018 and 2017 consisted of:

	<u>2018</u>	<u>2017</u>
MobilePack	\$ 257,464	\$ 419,286
Accounts and other donations	<u>72,631</u>	<u>152,717</u>
Total	330,095	572,003
Less allowance for doubtful accounts	<u>(57,802)</u>	<u>(40,326)</u>
Accounts and MobilePack receivables, net	<u>\$ 272,293</u>	<u>\$ 531,677</u>

4. Contributions receivable:

Unconditional promises to give are recorded as contributions receivable and revenue of the appropriate net asset category. The discount rate used on contributions receivable was between 0.77% and 1.73% in 2018 and 0.66% and 0.84% for 2017.

	<u>2018</u>	<u>2017</u>
Contributions receivable for headquarters building	\$ 249,667	\$ 374,500
Other contributions receivable	<u>280,350</u>	<u>533,100</u>
Gross contributions receivable	530,017	907,600
Less discounts to net present value	<u>(6,866)</u>	<u>(16,454)</u>
Contributions receivable, net	<u>\$ 523,151</u>	<u>\$ 891,146</u>
Amounts due in:		
Less than one year	\$ 347,950	\$ 509,300
One to five years	\$ 182,067	\$ 398,300

As of February 28, 2018 and 2017, two donors and one donor accounted for 72% and 42% of contributions receivable, respectively.

5. Inventory:

Packaged food inventory includes the estimated fair value of donated volunteer time and raw materials incurred to produce the meals. Packaged food inventory included \$1,676,006 and \$778,572 of donated labor as of February 28, 2018 and 2017, respectively.

Inventory consisted of the following at February 28:

	<u>2018</u>	<u>2017</u>
Raw materials	\$ 939,715	\$ 766,638
Work in process	119,249	234,149
Packaged food	2,812,815	1,169,827
Overhead allocated to packaged food	491,101	208,493
Market Place	<u>607,051</u>	<u>486,321</u>
	<u>\$ 4,969,931</u>	<u>\$ 2,865,428</u>

6. Property and equipment, net:

Property and equipment consisted of the following at February 28:

	<u>2018</u>	<u>2017</u>
Property and equipment:		
Land	\$ 214,200	\$ 214,200
Furniture and equipment	814,636	775,348
Computers and software	1,373,111	1,279,525
Building	1,388,286	1,388,286
Leasehold improvements	2,440,281	2,393,642
Projects in process	<u>774,729</u>	<u>206,753</u>
	7,005,243	6,257,754
Less accumulated depreciation	<u>(2,791,472)</u>	<u>(2,155,169)</u>
Net property and equipment	<u>\$ 4,213,771</u>	<u>\$ 4,102,585</u>

7. Promissory note:

On January 8, 2016 the Organization purchased the Coon Rapids facility of approximately 29,700 square feet and 2.7 acres of land from the landlord for \$1,575,000. The Organization secured a promissory note of \$1,300,000 from Thrivent Financial to finance a portion of the purchase. The promissory note is amortized over twenty years and requires monthly installments of \$7,708 including interest at 3.75%. The interest rate may be adjusted on January 15, 2026 to Thrivent Financial's current rate for similar agreements. The note is collateralized by a first security interest in the property, improvements, fixtures, equipment and personal property therein.

Future maturities of long-term debt are as follows:

2019	\$	60,633
2020		62,946
2021		65,348
2022		67,841
2023		70,429
Thereafter		<u>550,084</u>
	\$	<u>877,281</u>

8. Net assets:

Net Assets with Donor restrictions:

Temporarily restricted net assets are available for the following purposes at February 28:

	<u>2018</u>	<u>2017</u>
Permanent site development	\$ 1,639,535	\$ 658,036
Contributions for headquarters building	244,013	360,967
Country specific donations and shipping	215,373	447,709
Purchase of equipment and supplies	28,037	10,000
Sustainability study	<u>30,949</u>	<u>81,651</u>
	<u>\$ 2,157,907</u>	<u>\$ 1,558,363</u>

The amounts released from temporarily restricted net assets during 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Contributions for headquarters building	\$ 125,333	\$ 293,887
Country specific donations and shipping	1,631,632	1,769,350
Purchases of equipment and supplies	86,431	107,532
Sustainability study	50,701	55,933
Gala and special events	<u>-</u>	<u>406</u>
	<u>\$ 1,894,097</u>	<u>\$ 2,227,108</u>

9. Employee benefit plan:

The Organization has a 401(k) retirement plan. The 401(k) plan is a safe harbor plan and the Organization is committed to making matching contributions equal to 100% of eligible salary deferrals up to 3% of compensation plus 50% of eligible salary deferrals between 3% and 5% of compensation. The Organization made employer matching contributions to the Plan of \$264,811 and \$237,130 during 2018 and 2017, respectively.

10. Commitments:**Operating leases:**

As of February 28, 2018, the Organization maintained operating lease agreements for six of its seven permanent sites and two MobilePack warehouses. The leases require base monthly rents ranging from \$2,764 and \$16,300, including escalating payments, and as a result, deferred rent has been recorded for these leases. The agreements expire at various dates through February 2025. The Organization must also pay a certain proportionate share of operating expenses including utilities and real estate taxes. Additionally, the Organization has three warehouse leases, which are month-to-month leases. In February 2018, the Organization signed a lease for a new permanent site and the future minimum lease payments are included below.

The future minimum lease payments are as follows:

<u>Year ending February 28</u>	<u>Amount</u>
2019	\$ 979,005
2020	883,624
2021	860,205
2022	551,894
2023	530,657
Thereafter	<u>1,503,113</u>
	<u>\$ 5,308,498</u>

Occupancy expense and related costs were \$1,151,894 and \$1,174,839 for the years ended 2018 and 2017, respectively.

Purchase commitments:

As of February 28, 2018, the Organization's future obligation for the purchase of raw materials under contracts totaled approximately \$8.3 million.